

European Rates Weekly

Downgrades and Long-end Flatteners

- **Spain:** After S&P's double-notch downgrade of Spain, we explain the drivers of the decision and look at the potential impact of falling out of investment grade indices. The key question is how long the market can successfully ignore this possibility.
- **EUR Swap Curve:** After 45bp of steepening on EUR 10s30s, we think it's time to re-assess the UFR fundamentals against a rather large fast-money positioning.
- **Value in 30yr Gilts:** The 30yr sector looks relatively cheap on a multitude of metrics. Long-end forwards look attractive as well as 20yr30yr40yr gilt flies. Curve flatteners into the 30yr sector also look appealing given the cheapness vs the front-end. We also look at the prospect of more QE and what it might mean for the curve.
- **ESM Becomes Operational:** In the latest phase of the evolution of the core SSA market, the ESM was formally inaugurated on 8th October. We believe that features such as paid-in capital, preferred creditor status and its shareholder commitments will enable it become a core European supranational universe issuer.
- **Flow Analysis:** We look at medium-term demand trends in Europe to cast light on recent moves in the periphery and core. We also examine flows on the curve over the last week, and show how different appetite has been for the core and periphery ahead of S&P's downgrade of Spain.
- **Treasury/Bund Cash Flows:** The trend of cash flow support in favour of Europe has corresponded with the widening of the spread since the beginning of September. This support increases in October and should put widening pressure on the spread.
- **Upcoming Supply:** We expect the focus of next week's euro issuance to be on Thursday's Bono auction. Next week's US and UK issuance comes in the form of a 30-year TIPS reopening and a conventional gilt (4.5% 2019), respectively.
- **Algorithmic Trading Signals:** Maintain core long duration but wait for more attractive yield levels to re-enter longs.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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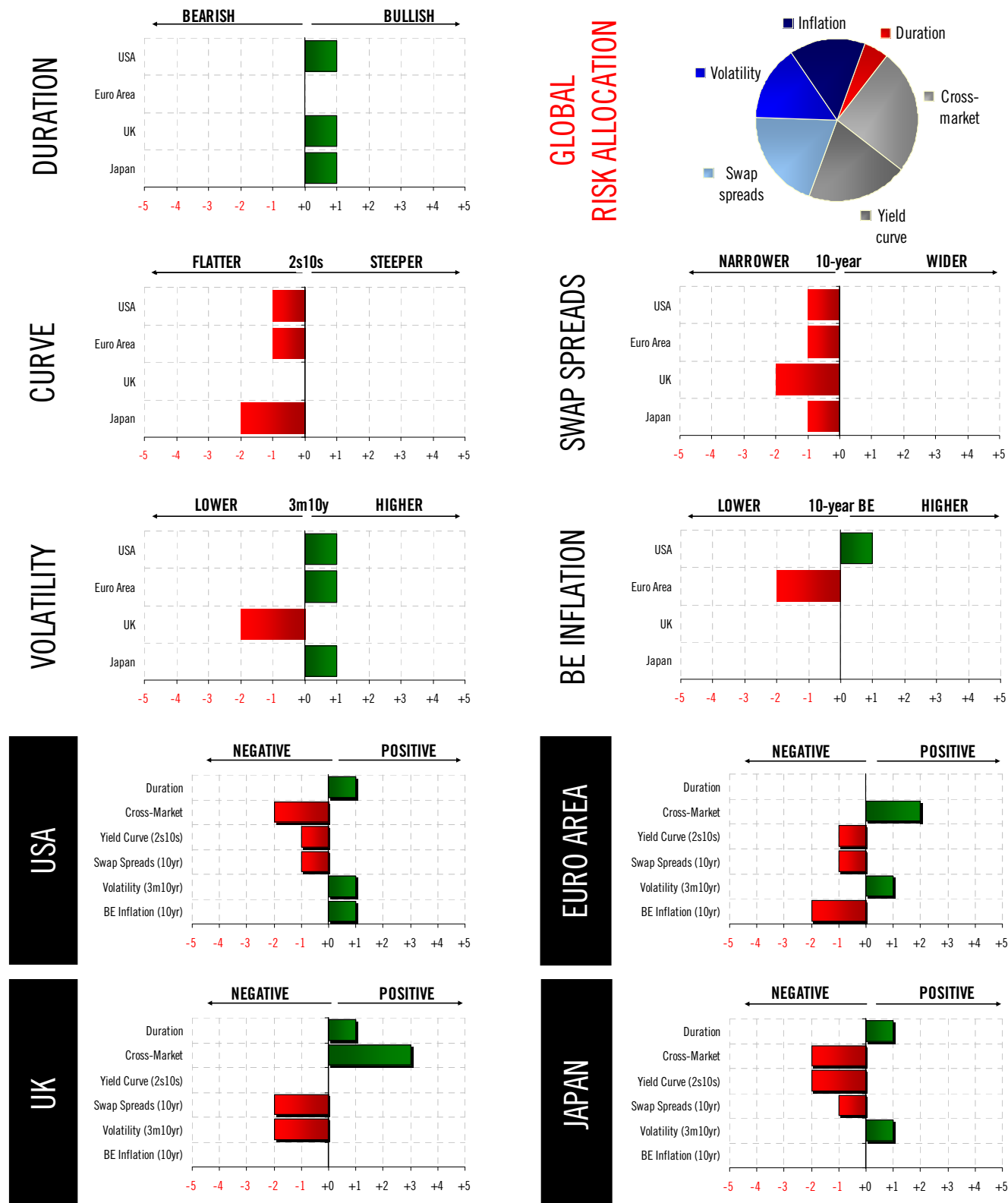
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Figure 1. Strategy Summary Table

Europe	View	Strategies
Direction	Recent policy measures have bought time but fundamental and implementation/political risks remain. On any medium term horizon we would still rather be long than short, especially given our economists warning that Grexit remains a possibility over the coming months.	Neutral on duration with Bunds at 1.50%. Cross-market trades and swap spreads offer much better value than outright duration trades.
Money Market	We like receiving longer-dated 1y forwards. This trade profits - of course - from a rate cut scenario as well in a situation of long-term unchanged rates, in which the market is desperate to grab the additional yield in forward space. This strategy rolls down by a cumulative 80bp in 24 months. Looking at Japan, the JPY 1yly rate dropped to a low of 0.08% in June 2003.	Receive EUR 1y3yF
Yield Curve	There has been interest in 5s10s Bund flatteners around the 12m highs. We see scope for further flattening, especially given our bullish duration bias.	10s30s steepeners in Germany as a long-term trade (or boxed with Gilts). Use POs (over cash) for 5s30s flatteners in OAT or OLOs if you have a long-end flattening view
Cross-market	We continue to prefer Bunds to Treasuries over the longer-term and expect a reversal of the recent tightening to continue.	Long 2x5 ATMf/+100 payer spread in USD versus EUR Long 30yr gilts vs USTs Receive EUR 2y2y vs USD 2y2y
EMU Spreads	The S&P downgrade of Spain makes the Moody's review even more important as a Moody's downgrade would trigger the beginning of forced selling as Spain falls out of the first investment grade index. The risk-reward of semi-core vs core wideners also looks appealing here.	Sell 5yr Austria vs Germany. Retain flatteners in BTPs but take off Bono flatteners.
Swap Spreads	Bund spreads have tightened significantly in the last two months. 30yr spreads are at levels which are likely to attract real money interest and we favour wideners here. We suggest selling Schatz vs EONIA as a way to express a deposit rate cut into negative territory. Gilt spreads continue to cheapen, influenced by the core market sell-off and corporate issuance.	Sell Schatz vs EONIA Long 30yr Bund swap spreads
Inflation	Several cross-market spreads across global inflation are at interesting levels. We see scope for some reversal in the near-term. We favour selling 10yr US inflation swaps vs EUR and buying 10yr UK cash break-evens vs euro.	Sell 10yr CPI ZC swaps vs 10yr HICPXT ZC swaps Buy UKTI 2022 vs OATe22 break-even Sell OATe22 vs Bunde23 real yield spread Sell OATe40 break-even outright or boxed vs UKTI 2040 10s30s TIPS break-evens steepeners as a LT structural trade.
Volatility	We recommend bullish positions in EUR front-end fws which are considerably elevated vs spot and do not reflect further ECB action. GBP 2y2y vol is too rich vs fundamentals, we suggest selling straddles.	Sell EUR 3y1y ATMf straddles and buy EUR 3y1y ATMf-25 receivers. Alternatively, sell EUR 3y1y ATMf payers Sell GBP 2y2y ATMf straddles
SSA	Although spreads have been somewhat softer recently, we do not think this marks the start of significant underperformance. Recent moves should be placed in the context of the summer rally and we expect a largely range bound market in Q4.	Long KfW vs France in the 4yr sector Micro extension trades in core issuers
Risk Allocation	Keep overall risk light but continue to trade opportunistically rather than strategically. Prefer cross-market and swap spread risk than outright duration trades.	

Source: Citi Research

Figure 2. Global Summary



Source: Citi Research

Tradesheet

New Trades

See page 13 of this publication for a full write-up

Originally recommend in
Global Inflation Strategy, 9 October 2012

1. Receive EUR 30s50s at 18bps

Open 18bps. Current 18bps. Target 5bps. Stop 22bps.

2. Sell 10yr US CPI ZC swap vs EUR HICPxT ZC swap

Sell 10yr US CPI ZC swap at 2.79%

Buy 10yr EUR HICPxT ZC swap at 2.08%

Open 71bps. Current 67bps. Target 50bp. Stop 80bps.

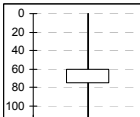
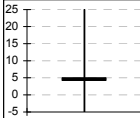
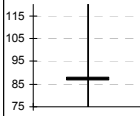
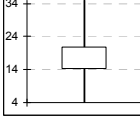
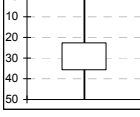
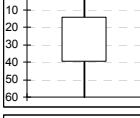
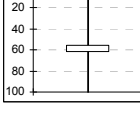
Record of Our Open Trades

Figure 3. Record of our Open Trades

Region	Trade	Levels	Rationale + Publication Date	
Europe / US	Sell 10yr US CPI ZC swap vs EUR HICPxT ZC swap	Open 71bp Current 67bp	The Fed's inflationary stance looks well priced and some reversal of recent trends is likely in the near-term. The US-euro inflation swap differential is at appealing historical levels <i>Global Inflation Strategy 9 October 2012</i>	
	Inflation Sell 10yr US CPI ZC swap at 2.79% Buy 10yr EUR HICPxT ZC swap at 2.08%	P&L 4bp Target 50bp Stop 80bp		
Europe	Receive EUR 30s50s	Open 18bp Current 18bp	Long-end of EUR swap curve is pricing in more than required de-hedging by Dutch pension funds. CVA activity should support the trade. <i>European Rates Weekly 11 October 2012</i>	
Duration	Receive EUR 30s50s at 18bp	P&L 0bp Target 5bp Stop 22bp		
Europe	Receive EUR 1y3yF	Open 136bp Current 119bp	ECB rate cut and very high carry should be supportive for this trade <i>IIRS 13 September 2012</i>	
Duration	Receive EUR 1y3yF at 1.36%	P&L 17bp Target 50bp Stop 150bp		
Europe	Sell 5yr Austria vs 5yr Germany	Open 24bp Current 22bp	Risk of delay to the ECB's OMT programme and attractive entry levels <i>IIRS 13 September 2012</i>	
EMU Spreads	Sell RAGB 4% Sep16 at 0.59% Buy Bobl 1.25% Oct16 at 0.35%	P&L -2bp Target 40bp Stop 16bp		
Europe	Italy 2s10s flattener	Open 280bp Current 271bp	We expect this strategy to work in both a risk-on environment (duration extension across front-end BTPs) & risk-off environment (increase in credit risk would bear-flatten the curve) <i>Assessing the Impact of a Theoretical OMT... 12 September 2012</i>	
Curve	Sell BTP 4.25% Jul14 at 2.20% Buy BTP 5.5% Sep22 at 5.00%	P&L 9bp Target 250bp Stop 290bp		
Europe	France 2s5s Steepener	Open 70bp Current 65bp	Proxy for shorting France vs Germany <i>IIRS 16 August 2012</i>	
Curve	Buy BTAN 3% Jul14 at 0.14% Sell OAT 3.75% Apr17 at 0.86%	P&L -5bp Target 100bp Stop 60bp		
Europe	Sell EUR 1y3yF ATM straddle and buy ATM-25 receiver	Open 63bp Current 51bp	Fwd levels in front-end EUR swaps are too high in an environment where additional policy measures by the ECB are likely to be undertaken <i>IIRS 9 August 2012</i>	
Volatility	Sell EUR 1y3yF ATM (=1.36%) straddle for 98bp Buy EUR 1y3yF ATM-25 receiver for 35bp	P&L 12bp Target 30bp Stop 73bp		
Europe	Long KfW 1.375% Feb17s vs OAT 5% Oct16s	Open 1bp Current -4bp	Spread compression looking overdone and we look for KfW to outperform should the EMU crisis intensify <i>IIRS 2 August 2012</i>	
Cross Market	Buy KfW 1.375% Feb17 at 0.62% Sell OAT 5% Oct16s at 0.63%	P&L -5bp Target 20bp Stop -10bp		

Source: Citi Research

Figure 4. Record of our Open Trades (continued)

UK	Sell GBP 2y2y ATMF straddle	Open 76bp Current 60bp P&L 16bp Target 0bp Stop 114bp	The fundamental backdrop in the UK supports selling GBP 2y2y vol IIRS 12 July 2012	
Europe / US	Buy USD Payer Spread vs EUR (delta-weighted and fx-adjusted)	Open 5bp Current 4bp P&L -1bp Target 25bp Stop -5bp	Range-bound short rates with short term cash-flow support for Europe IIRS 12 July 2012	
Germany	Germany 10s30s steepener	Open 88bp Current 87bp P&L -1bp Target 120bp Stop 75bp	Replaces 5s30s steepener. Regulatory pressures expected to weigh on long end. IIRS 12 July 2012	
US / Europe	Long 10yr Bund vs UST	Open 14bp Current 21bp P&L 7bp Target 35bp Stop 4bp	The recent weakness in equities, the upcoming NCR profile & our ARTS weekly trading signal suggests buying 10yr Bunds vs USTs Interest Rate Strategy Update 25 June 2012	
US / UK	Long 30yr Gilt vs UST	Open 36bp Current 22bp P&L 14bp Target 0bp Stop 50bp	With Operation Twist extension largely priced in, QE resumption should help gilts outperform treasuries UK Rates Strategy 20 June 2012	
US / Europe	Pay USD 2y 2y fwd vs EUR	Open 40bp Current 14bp P&L 26bp Target 0bp Stop 60bp	We expect divergence between UST and core EMU yields IIRS 23 February 2012	
UK / Europe	Bund 5s30s steepener vs gilts flattener	Open 62bp Current 56bp P&L 6bp Target 0bp Stop 100bp	Free-float profile suggests support to UK long end by QE, hedged by EUR steepener against EUR driven risk of mid-curve repricing Interest Rate Strategy Focus on QE 14 Sep2011	

Source: Citi Research

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Spain and the implications of its downgrade

S&P hit the nail on the head, in our view, in its statement accompanying the 2 notch downgrade of Spain's long-term rating from BBB+ to BBB-, with a negative outlook: *"The negative outlook on the long-term rating reflects our view of the significant risks to Spain's economic growth and budgetary performance, and the lack of a clear direction in euro-zone policy,"* and *"The deepening economic recession is limiting the Spanish government's policy options."* None of that is news, of course, but the question is whether the market can shrug off this news and retain its confidence, given that it will focus attention on the longer-term trajectory of Spain's rating, and will remind people that the recent improvement in the firewall is not a sufficient condition for resolution of the crisis.

The longer term impact of S&P's downgrade could be very significant if the market sees the trajectory towards Spain's eventual exclusion from IG indices as inevitable. S&P's action is an important step towards Spain falling out of IG indices, and makes it easy for the market to extrapolate to the eventual destination - even if that is some way off. And while Italy has so far managed to stay out of the wake of Spain, the fear of flows on the back of Spain losing its IG rating could easily be significant enough to start to afflict Italy as well.

Figure 5. Spain and Italy eligibility for EGBI

	S&P	Moody's
EGBI Eligibility	BBB-	Baa3
Spain	BBB-	Baa3
Downgrade buffer	1 notch	1 notch
Italy	BBB+	Baa2
Downgrade Buffer	3 notches	2 notches

Source: Citi Research

How far is Spain from losing its investment grade rating and falling out of indices?

S&P's downgrade has brought it into line with Moody's. Both agencies have Spain at the lowest investment grade rating. Eligibility for Citi's World Government Bond Index (WGBI) rests on an IG-rating from *either* S&P or Moody's. Other indices use the lowest of Moody's and S&P, or an average of Moody's, S&P and Fitch, or 2 out of the 3. But in reality they get to the same place, just via different routes and at slightly different rates. Although a country will be rendered ineligible for successive IG indices at different times, there will be an element of forced selling each time. It may be expensive for index investors to be short¹ in anticipation of a possible future event (that may not happen) - or a series of events - but that will not stop faster non-indexed money positioning for it². It is precisely because the market rarely waits for the reality before adjusting - which is why the spread reaction to ratings events often appears muted - that fears frequently become self-fulfilling.

How much index-tracking money is invested in Spain?

Approximately, if \$1.5-2t is invested in the WGBI, and Spain is 2.5% of that (or 10% of the EGBI), then that translates³ into €45-65bn of Bonos. But the important point is neither the arithmetic nor the actual number itself: it is that the fear of any eventual significant marginal flows could quickly become self-fulfilling. As soon as the market switches from 'if' to 'when', there will be significant pressure put on the curve and spreads.

The important point is not the arithmetic: it is that the fear of any significant marginal flows could quickly become self-fulfilling

¹ They can however, over time, move to customized benchmarks, reducing the weight of those countries where there is a shared and clear perception of a significant risk of capital loss.

² In the same way that the UFR-inspired steepening of the long end in Europe has been largely anticipatory flows rather than actual reindexation, which we calculate to be relatively modest.

³ Any estimation is further complicated by the trend towards customized benchmarks.

What happened when Portugal lost its IG rating?

To examine the effect of ratings changes we looked at the 2 days following the downgrade (i.e. from the close the night before)⁴. The figures below show the history of credit ratings and spread changes for the three major ratings agencies. Ratings/dates in bold and red designate negative watch. Non-investment grade ratings are shaded in turquoise. Ratings changes over 10 years ago are in grey. As you can see, the market response to ratings changes is highly variable, not least because they are often not surprises and consequently lag market moves. However, what is clear is the negative impact that Portugal experienced upon losing its IG rating.

Figure 6. Impact of ratings changes on 10yr Portugal/Germany spread (2-day change)

S&P	Date	Final Rating	Spread Change	Moody's	Date	Final Rating	Spread Change	Fitch	Date	Final Rating	Spread Change
	13 Jan 12	BB	195		13 Feb 12	Ba3	-45		24 Nov 11	BB+	196
	05 Dec 11	BBB-	-96		05 Jul 11	Ba2	231		01 Apr 11	BBB-	6
	29 Mar 11	BBB-	52		05 Apr 11	Baa1	-8		24 Mar 11	A-	25
	24 Mar 11	BBB	25		15 Mar 11	A3	18		23 Dec 10	A+	8
	30 Nov 10	A-	-98		21 Dec 10	A1	18		24 Mar 10	AA-	-10
	27 Apr 10	A-	24		13 Jul 10	A1	9		14 Jul 98	AA	
	21 Jan 09	A+	12		05 May 10	Aa2	99		26 Oct 95	AAA	
	13 Jan 09	AA-	24		18 Nov 86	Aa2					
	27 Jun 05	AA-	1								
	15 Dec 98	AA									
	06 May 98	AA-									
	26 May 93	AAA									

Source: Citi Research

Very large response to the loss of investment grade status from each rating agency

These effects are summarized in Figure 7 below. The first cut elicited the biggest response, though all the changes are large, and perhaps surprisingly consistent.

Figure 7. 10yr Portugal 2-day spread change to Germany after losing its IG rating

Agency	Date	Change
S&P	13 Jan 12	196
Fitch	24 Nov 11	195
Moody's	05 Jul 11	231
Average		207

Source: Citi Research

Figure 8. 10yr Portugal 2-day spread change to Germany on being downgraded to the lowest IG rating

Agency	Date	Change
S&P	05 Dec 11	-96
Moody's	05 Apr 11	-8
Fitch	01 Apr 11	6
Average		-33

Source: Citi Research

Muted or no negative response to the downgrade before the loss of IG status

The current situation becomes even more interesting when you look at the effect of the downgrade *preceding* the loss of IG status (Figure 8). This effect was almost non-existent in the first two cases (Moody's and Fitch) and the spread actually tightened after the S&P downgrade.

Moody's review is even more important than it was previously

Back to the present day, and the implications of Figure 7 and Figure 8 taken together. If Portugal's experience is any sort of template, S&P's downgrade of Spain means that Moody's review is even more important than it was previously, as any downward move by Moody's would likely trigger the first wave of forced selling, as we saw with Portugal.

⁴ Longer periods make it difficult to isolate the effect of the ratings event and attribute the majority of the spread change to it. The number of other factors that affect bond prices and the variation in their strength make the half-life of the probable effect of rating changes rather short. The best an analysis can achieve is provide a sensible idea of the order of magnitude of changes.

What about when Greece lost its investment grade rating?

Greek spread widening was much smaller (Figure 9) but responses to preceding downgrades were significant. But the background and the market focus was very different when the crisis was only just beginning to unfold back in 2010. As the potential of the crisis slowly dawned, so did market sensitivity. And, of course, the political backdrop is different for every ratings change. All of which just serves to illustrate that these comparisons are rough guides, at best, and should be treated as such.

Figure 9. 2-day changes for 10yr Greece and Ireland spreads to Germany for loss of investment grade rating, and the two prior downgrades

S&P - Greece			Moody's - Greece		
Date	Rating	Change	Date	Rating	Change
27 Apr 10	BB+	16	14 Jun 10	Ba1	5
16 Mar 10	BBB+	-31	22 Apr 10	A3	96
16 Dec 09	BBB+	-41	22 Dec 09	A2	147

Fitch - Greece			Moody's - Ireland		
Date	Rating	Change	Date	Rating	Change
14 Jan 11	BB+	15	12 Jul 11	Ba1	76
21 Dec 10	BBB-	71	15 Apr 11	Baa3	60
21 Dec 10	BBB-	84	17 Dec 10	Baa1	69

Source: Citi Research

The existence of the OMT is a key positive difference from the past, but Spain is a far larger market than Portugal, Greece, and Ireland combined.

The longer-term impact could be very significant if the market sees the trajectory towards Spain's eventual exclusion from IG indices as inevitable

The OMT notwithstanding, if Portugal is any guide, the impact of the next ratings move could be very negative.

Of course this time is different, with the OMT (and EFSF) and a much less flimsy policy framework, but the above does give some perspective on the potential magnitude of changes. And the one factor which could potentially render any guides irrelevant is the sheer size of the Spanish bond market, compared to that of Ireland, Portugal and Greece.

Conclusion: Keep your eye on the bigger picture

In the short term we suspect that the noise and column inches generated by the S&P downgrade will be disproportionate to its impact⁵. To the extent that the presence of the OMT keeps a lid on front-end yields, any negativity will be manifest as a long-end led steepening of the curve.

However, the main point is that the longer-term impact could be very significant if the market sees the trajectory towards Spain's eventual exclusion from IG indices as inevitable. S&P's action is a significant step towards Spain being vulnerable to losing its IG rating, and makes it very easy for the market to extrapolate to the eventual destination, even if that is some way off. Our concern is that S&P's action will sensitize the market with Moody's expected to announce the results of its review this month⁶. A downgrade by Moody's would put Spain just one ratings action away from being ineligible for the major bond indices. The experience of Portugal suggests that the ensuing spread moves could be very negative. And, while Italy has so far managed to stay out of the wake of Spain, the fear of flows on the back of Spain losing its IG rating could be significant enough to afflict Italy too.

⁵ Especially given the cushioning provided by the presence of the OMT.

⁶ Reuters, 02October: "Moody's says to announce results of Spain rating review this month: Ratings agency Moody's will announce the results of a review of Spain's sovereign debt rating, which currently stands just one notch away from losing investment grade, some time this month".

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Postscript: Understanding S&P's downgrade of Spain

S&P now rates Spain in line with Moody's, but what are the drivers?

While Citi had anticipated further downward pressure on S&P's rating of Spain in the near term, we had expected a one-notch move rather than two⁷ (*Sovereign Ratings Outlook*). At BBB- this puts Spain's rating at just one notch above sub-Investment Grade by both S&P and Moody's (Figure 10). Such rating actions form part of a wider reappraisal of Spain's credit worthiness by the rating agencies given the recent moves by Fitch and Moody's (the latter of which still has Spain on review with a verdict expected later this month). We explored various potential market consequences of this reappraisal above. Below we summarise the drivers behind S&P's downgrade as this understanding is important to assessing the future trajectory of spreads.

The key is where the bank recap debt resides - ESM or Spain

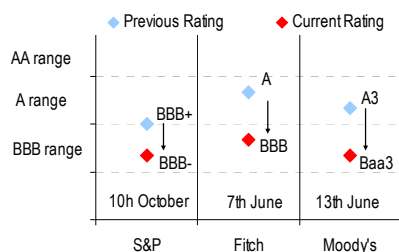
For S&P, a key driver here is not anticipation that Spain will request aid at the sovereign level from the EFSF/ESM for financial assistance. Indeed, the previous BBB+ rating was affirmed by S&P in a note on 1st August and more recently S&P indicated that "a request for a full bailout would not affect Spain's sovereign's ratings" in a publication entitled as such on 22nd August. This is of course in contrast to Moody's which has indicated that sovereigns completely dependent on official sources for funding represent a non-Investment Grade rating (*International Interest Rate Strategist* 13th September). So what has changed for S&P?

S&P has consistently said that the Spanish rating could come under pressure due to rising uncertainties at the European policy level and also at the national economic and political level. In a note dated 26th April, S&P stated its view that "the strategy to manage the European sovereign debt crisis continues to lack effectiveness". However, although S&P saw risks rising that Spain may ultimately have to assume the debt for recapitalizing Spanish banks, the BBB+ rating rested to some extent on debt mutualisation via the ESM. Specifically, S&P had previously stated: "our current net general government debt projections reflect our assumption that official loans to distressed Spanish financial institutions will eventually be mutualised among all eurozone governments, and thus Spanish net general debt would remain below 80% of GDP beyond 2015" (1st August).

This assumption has now changed.

S&P stated⁸ this week that "Our current net general government debt projections reflect our assumption that official loans to distressed Spanish financial institutions will eventually fall on the government balance sheet and project Spanish net general government debt will reach about 83% of GDP in 2013". Consistent with previous statements, S&P still perceives the wider euro area policy setting framework as "lacking predictability". The rating has consequently moved to BBB- which is in line with Moody's (which assumed the debt would reside on the sovereign balance when it downgraded Spain from A3 to Baa3 in June).

Figure 10. Recent Actions on Spain's Rating



Source: S&P, Fitch, Moody's

⁷ S&P's 10 October downgrade of Spain from BBB+ to BBB- followed the two notch downgrade by S&P in April from single A.

⁸ S&P RatingsDirect "Spain Ratings Lowered to BBB-/A-3 on Mounting Economic and Political Risks; Outlook Negative" 10th October 2012.

EUR Swap Curve

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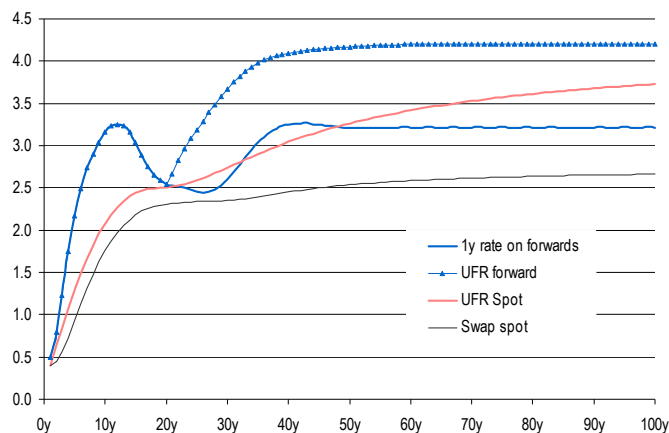
After 45bp of steepening on EUR 10/30s, we think it's time to re-assess the UFR fundamentals against a rather large fast-money positioning.

Pension Fund Regulation & the Long End

The introduction of a UFR-discount curve (Figure 11) for Dutch occupational pension funds has resulted in a significant steepening of the long-end of the EUR swap curve. Since June, EUR 10/30s has steepened by 45bp, while EUR 30/50s is steeper by 13bp. Our hypothesis is that this steepening is unrelated to de-hedging flows and reflects mainly – if not exclusively – two flows:

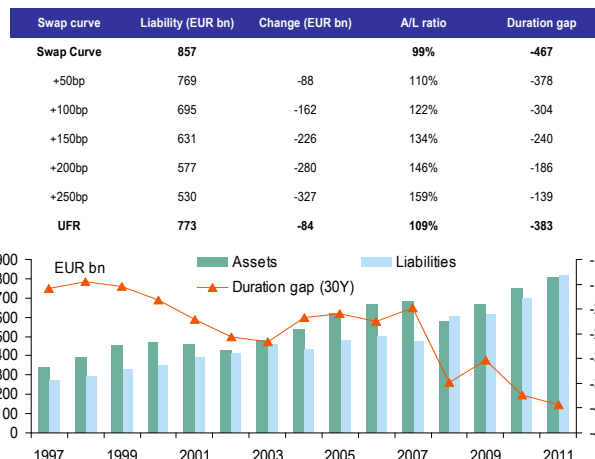
- Speculative: Anticipation of a regulatory change has prompted a plethora of paying flows in the long-end of the curve. The idea is to anticipate the supposed large de-hedging of pension liabilities.
- CVA: The transition towards a UFR curve became a high probability scenario as the sovereign risk premium started to decline. In such an environment, CVA desks typically have little incentive to receive the long-end of the curve (against one-way collateral). In Figure 13, we highlight this relationship between the shape of the yield curve and Italy's CDS.

Figure 11. Which curve to choose?



Source: Citi Research

Figure 12. Discounting liabilities with the UFR curve



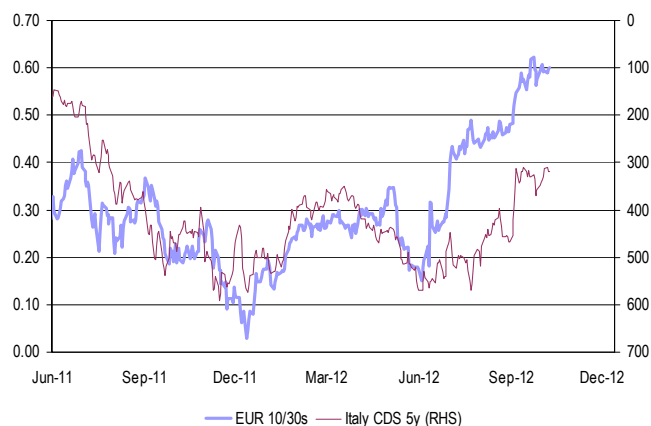
Source: DNB, Citi Research

A closer look at the mechanics of UFR and the current state of Dutch occupational pension funds tells a different story, though. The transition from a spot swap to a spot UFR curve improves the cover ratio (defined as PV of assets in % of PV of liabilities) by only 10% (Figure 12). Optically, pension funds will find themselves in a better financial shape and above the FTK 105% threshold. However, the crucial issue about the duration gap embedded in pension funds' portfolios is not resolved at all. As we can see in Figure 12, the transition reduces the duration gap by roughly EUR 80bn (total EUR 383bn), while still leaving this long-term risk measure at levels consistent with the financial/sovereign crisis environment. For example, in 2007 Dutch pension funds reported a duration gap of 197bn with a 144% cover ratio.

We appreciate the need for a change in the liability discounting mechanism, but in our view the impact on the aggregate PV of Dutch pension liabilities is not significant and must not necessarily lead to the large de-hedging activity that has been the main assumption of speculative strategies.

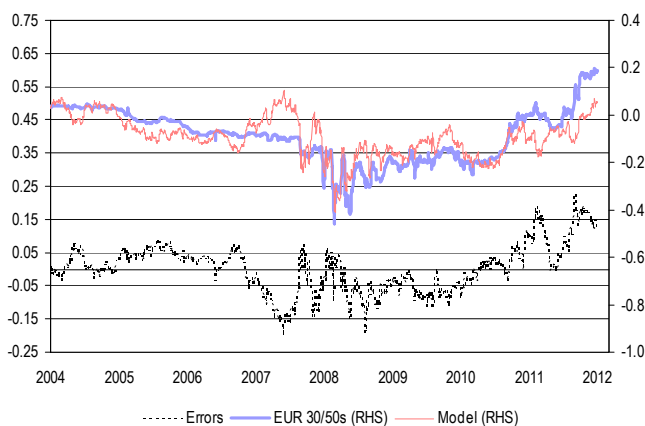
Furthermore, the CVA issue has been neglected by market participants, focusing almost exclusively on UFR. Since June, 5y Italy CDS has dropped by almost 250bp, thus reducing the need for long-dated receiving by CVA (Figure 13). The CVA impact is also evident from the correlation between long-dated vega, EUR 10/30s and peripheral CDS.

Figure 13. Impact of CVA hedging



Source: Citi Research

Figure 14. Decomposing the ultra-long end



Source: Citi Research

Strategy: Receive EUR 30/50s

We suggest investors start looking at ways to fade the significant steepening experienced at the long-end of the EUR curve. The richness in the ultra-long end can be highlighted also by decomposing the 30/50s curve in its building blocks:

- Rate anticipation (e.g. EUR 1y/1y1y)
- Term premium (e.g. EUR 10/30s)
- Convexity premium (e.g. EUR 1y30y vol)

In Figure 14, we show the result of this exercise, suggesting that EUR 30/50s is approximately 15bp (2 s.d.) too steep relative to our simple model. Given the RV and the fundamental discussion about UFR above, we recommend investors to consider receiving EUR 30/50s in the 18/19bp region. Target on this trade is around 5bp (conservative stop loss, let's say 22bp).

Sterling Rates Strategy

Value in 30yr gilts

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Two events are likely to dominate the gilt market in the coming weeks; the new 2044 conventional gilt syndication in the week beginning 22 October and the QE decision on 8 November. These events are likely to be particularly pertinent to the 15yr+ sector of the gilt curve, which is the focus of this piece.

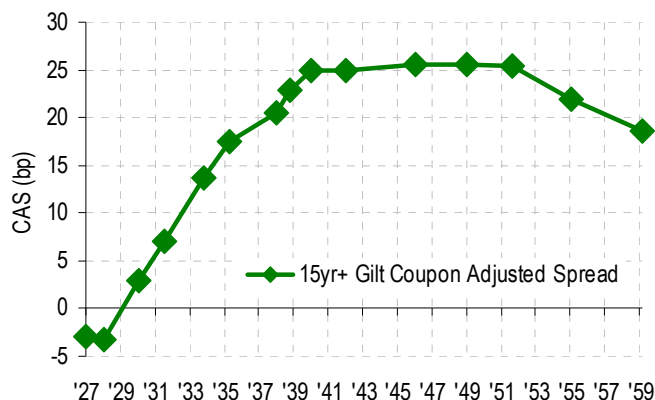
The 30yr sector has already begun to cheapen ahead of the syndication and this may well continue in the coming days. However, this is likely to provide an opportunity to extend into 30yr gilts at relatively attractive levels. Flattening positions are also likely to benefit from an expansion of QE in November, or soon after.

The 30yr sector looks cheap on the curve

30s look relatively cheap on the Coupon Adjusted Spread curve

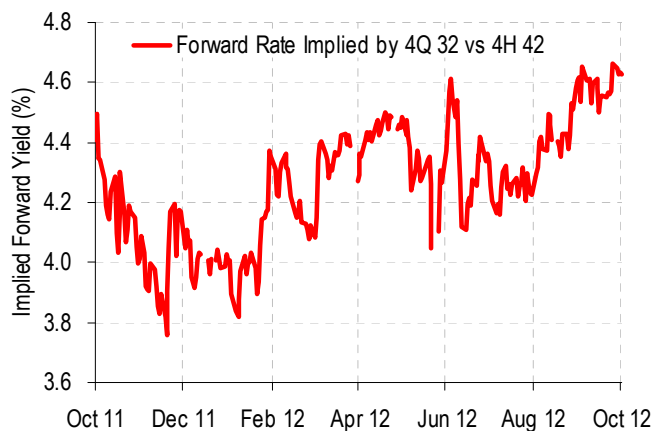
The new 2044 will be the first conventional gilt syndication since April. It appears that the gilt market is already making room for the new issue. Figure 15 shows the Coupon Adjusted Spread (CAS) curve for the 15yr+ sector. The 30yr sector is the cheapest part of the curve and looks attractive vs the wings in this sector.

Figure 15. 30yr gilts look relatively cheap on the CAS curve



Source: Citi Research

Figure 16. Long-end forwards are near one-year highs



Source: Citi Research

Long-end forward yields are near one-year highs

The recent cheapening of the 30yr sector is further illustrated by long-end forwards. As Figure 16 shows, the 10y, 20yr forward rate (as implied by the 2032s vs 2042s) is near the one-year highs. The long-end forwards are likely to attract interest around these levels, especially as year-end approaches (given the usual seasonal support for gilts in Q4).

20yr30yr40yr yield flies have cheapened sharply

Various yield flies on the gilt curve also highlight the relative attractiveness of the 30yr area. For example, the 2042s have cheapened by around 6bp in two months vs a fly combination of the 2034s and 2052s (Figure 17). Furthermore, the 2042s have recently underperformed vs both the short- and long-legs of the fly. Previously, the 40yr-30yr and 30yr-20yr curves were highly correlated. This appears to have broken down in the last few months with 30yr-20yr steepening to new highs while 40yr-30yr has flattened (Figure 18).

The 30yr sector looks cheap on a multitude of metrics

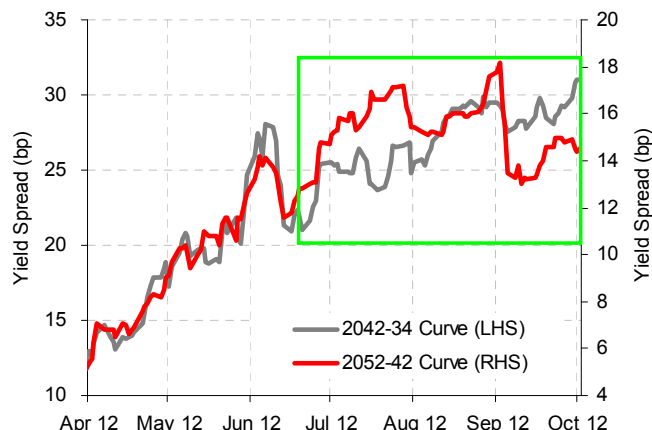
Putting all this together - the shape of the CAS curve, the rise in long-end forwards, the steepness of the 30yr-20yr curve and the attractiveness of the 20yr30yr40yr fly - highlights the cheapness of 30ys on the curve. The syndication offers an obvious explanation, and interest in this part of the curve is likely to grow as it approaches.

Figure 17. The 2034-2042-2052 fly has cheapened sharply



Source: Citi Research, Bloomberg

Figure 18. 20yr30yr is steepening vs 30yr40yr flattening



Source: Citi Research, Bloomberg

Impact of QE on the 30yr sector

The GDP data on 25 October could influence the QE decision

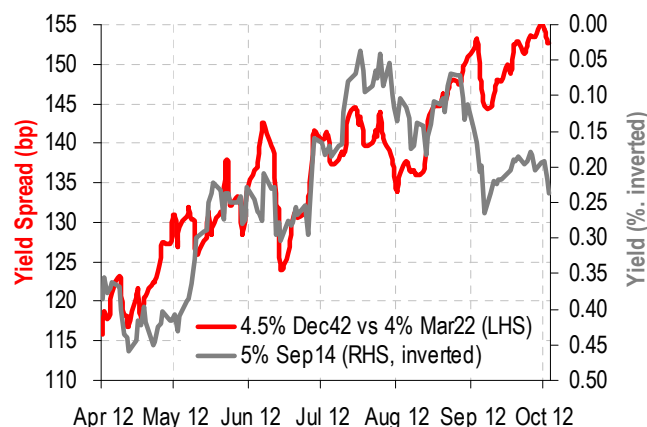
Aside from the syndication, the other major event in the gilt market in the coming weeks will be the MPC meeting on 8 November which will decide on either a pause of QE or an extension. As our economists have highlighted (see [UK Economics Weekly](#), 5 October), recent comments suggest that several MPC members are reluctant to expand QE. Despite this, our economics team continues to expect QE to be extended by £50bn at the November meeting. However, they also acknowledge that a short pause is possible, especially if the GDP data for Q3 (released 25 October) is stronger than expected.

10s30s looks cheap vs the front-end

10s30s have continued to steepen, despite the sell-off in 2yr yields

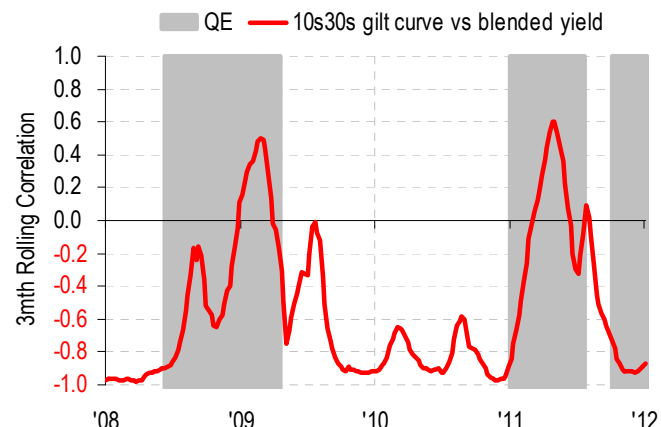
As discussed above, the 30yr sector of the gilt curve looks cheap on several valuation measures. Correspondingly, the 10s30s curve looks cheap vs the front-end. As Figure 19 shows, the 10s30s gilt curve has continued to steepen despite the recent sell-off in 2yr yields. This contrasts to the usual directionality and, again, is probably related to the market preparing for the syndication.

Figure 19. 10s30s gilt curve looks steep vs 2yr yields at the moment...



Source: Citi Research, Bloomberg

Figure 20. ...but 10s30s has regained its broader directionality



Source: Citi Research, Bloomberg

The impact of QE on the curve appears to have diminished

An extension of QE should benefit flatteners at first...

The steepness of 10s30s relative to 2s suggests that the curve has scope to flatten post syndication. Assuming the market has reduced expectations of further QE, flatteners should receive a further boost if QE is extended in November, at least in the very short term. It is interesting to note, however, that QE appears to be having less of an impact on the curve than previously.

...but flattening is only likely to be sustained in a bearish environment

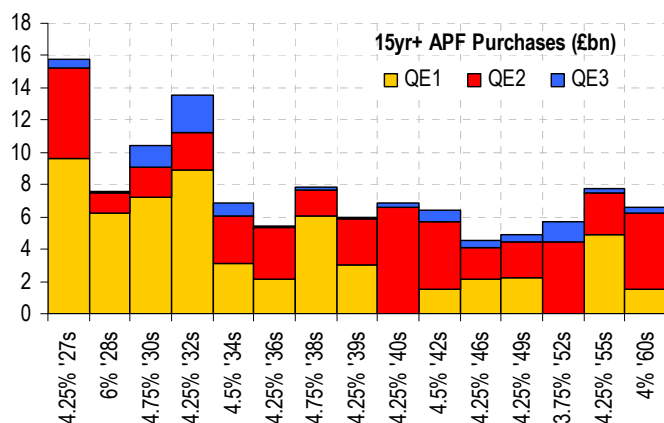
Figure 20 plots the three-month rolling correlation between 10s30s and blended gilt yields over the last five years. The chart clearly shows that the usual curve directionality - of bear flattening, bull steepening - has been lost during previous rounds of QE and then regained quickly thereafter. In contrast, the curve has remained highly directional during the latest round of QE. Most recently, the directionality has lessened (ahead of the syndication). But this observation does suggest that a flattening trend is unlikely to be sustained, even if QE is expanded (with no bucket change), unless yields also move higher.

Available free-floats favour 30yrs over the 15-20yr sector

The available free-float in the 15-20yr sector has been heavily reduced

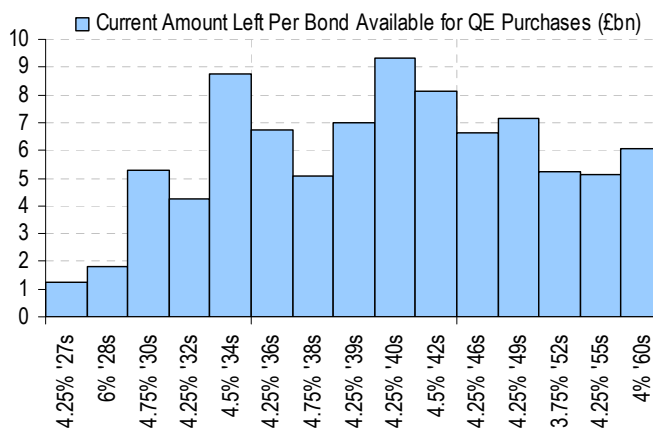
An extension of QE could help to relieve the apparent richness of the 30yr sector vs the 15-20yr sector. Figure 21 shows APF purchase to date within the 15yr+ sector. There is a clear concentration of buying in the 2027-32 issues. In QE3 alone, the 2030s, 32s and 34s have accounted for 45% of all 15yr+ purchases. This probably helps to explain the relative richness of the 20yr sector vs the 30yr sector. The buying has left the available free-floats in the 15-20yr sector at relatively low levels vs longer maturities. So if QE is expanded further, 30yrs stand to benefit the most.

Figure 21. APF purchases of 15yr+ gilts



Source: Citi Research, DMO, Bank of England.

Figure 22. Not much left to buy in the 15-20yr sector



Source: Citi Research, DMO, Bank of England.

Trade summary

Scale into 30s

The analysis above suggests scaling into the 30yr sector of the gilt curve over the coming weeks. The 30yr sector looks relatively cheap, probably related to the upcoming syndication, and should receive a boost if QE is expanded. The long-end forwards look particularly attractive as do 20yr30yr40yr gilt flies. Curve flatteners into 30yrs also look appealing given the cheapness vs the front-end, especially for those who are bearish.

SSA Strategy

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Establishing the ESM is an important step in the development of the euro area's wider crisis management framework

Core SSA issuers have benefited from their relatively high credit quality

The ESM becomes operational – implications and details

The European SSA market continues to evolve and attract considerable attention. This is partly explained by the increased and varied nature of supply and the emergence of new issuers, such as the EFSF, as part of the euro area's wider crisis management framework. The latest issuer to enter the SSA universe is the European Stability Mechanism, which was officially inaugurated on 8th October.

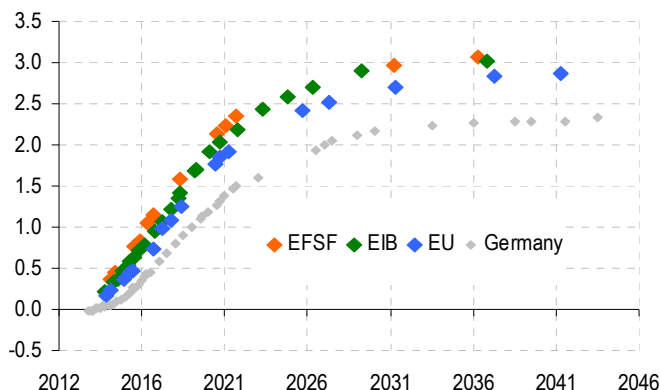
Many investors are focused on how this issuer might compare with other SSA credits – especially given the prospect that the ESM might soon issue its own securities. We see the establishment of the ESM as an important step forward in the development of the wider euro area architecture for combating market stresses and providing stability support (particularly in combination with the ECB's OMT programme). In general, the specific credit positives of paid-in capital, preferred creditor status and wide support from its shareholders are likely to mean the entity secures its place as a core issuer within the Aaa European SSA market.

The core European SSA market

Key European supranational issuers include the EIB, the EU and the EFSF. As we have previously noted ([Euro SSA Strategy - An Introduction to Core European SSA Issuers](#)), in some ways, the ESM has a capital structure similar to other multinational lending entities, albeit with a policy mandate to provide financial support to EMU sovereigns rather than broader aims of pan-European macro objectives (such as the EIB, for example).

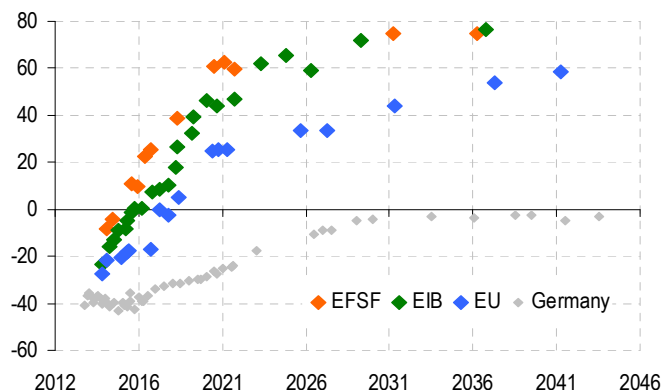
Yield and ASW curves for existing key European supranationals are shown in Figure 23 and Figure 24. Such core SSA names have benefited from their high credit quality in a hunt for yield environment and spreads have progressively tightened over recent months. That said, although there has been yield compression, there is still market differentiation between issuers, which has been an increasing feature of the core SSA sector ever since late 2011 given the rising EMU sovereign downgrade concerns.

Figure 23. Core European Supra and Germany Yield Curves (%)



Source: Citi Research

Figure 24. Core European Supra and Germany ASW Curves (%)



Source: Citi Research

However, it is not just the credit quality of underlying sovereign guarantors that guides SSA yields. The market also focuses on the differences in capital structures, asset quality and market traditions, and technical factors can also play their part ([European Rates Weekly 4th October](#)). In general, we continue to note the benefits of this relatively high quality sector given the wider economic backdrop and also its ability to provide a degree of insulation from the wider euro area debt crisis.

How the newly operational ESM fits into the wider SSA universe

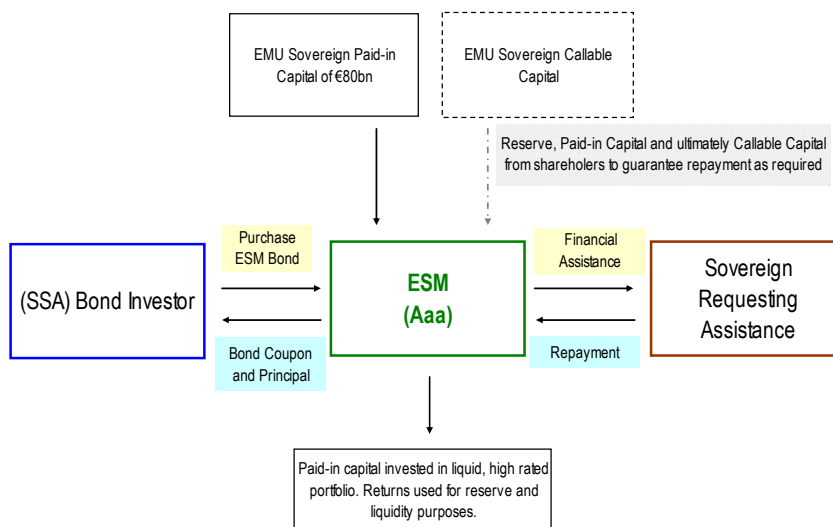
What is the ESM and what does it do?

The ESM has a capital structure similar to multinational lending institutions, though there are important differences (*Euro SSA Strategy - An Introduction to Core European SSA Issuers*). As an entity, it is an intergovernmental organization established by Treaty with a Board of Governors and Board of Directors. Its purpose is to provide stability support to sovereigns that request (conditional) financial aid. It can provide loans and precautionary credit lines, purchase bonds (both in the primary and secondary market) and finance bank recapitalizations through loans to governments. As with its predecessor, the EFSF, the ESM is able to raise funds in the capital markets and then manage resources to provide financial assistance.

Acceleration of paid-in capital

Unlike the EFSF, the ESM has paid-in capital of €80bn (€32bn of which is due in 2012, €32bn in 2013 and €16bn in 2014). This is to be invested in high quality assets. Total subscribed capital is €700bn, of which €620bn is callable. The general structure of the ESM is highlighted schematically in Figure 25.

Figure 25. Likely ESM Structure, Schematic



Source: Citi Research, ESM, Moody's ESM Rating

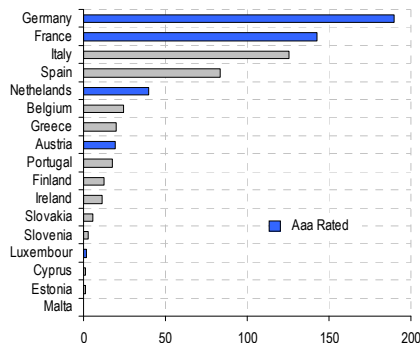
How does the ESM compare to the EFSF?

Key differences of the ESM vs EFSF

In some ways, the ESM is similar to the EFSF, in that its central policy mandate is to provide conditional financial assistance to EMU sovereigns requesting aid. It also has similar tools such as the ability to purchase bonds and provide loans. However, it does have the following distinguishing features and enhanced credit supports:

- Paid-in capital of €80bn
- Lending capacity of €500bn
- Permanence
- Seniority

Figure 26. ESM Total Subscribed Capital Contributions (€bn)



Source: ESM, Moody's Aaa Ratings, Citi.

ESM is rated Aaa by Moody's and AAA by Fitch

All eyes are remain on whether Spain will seek EFSF/ESM support at the sovereign level

Key credit ratios for SSA markets – ESM attracts the Aaa standard

Such features have already been incorporated into rating agency analyses and Fitch and Moody's recently attributed AAA and Aaa ratings respectively. In terms of credit fundamentals, the ESM has a maximum lending capacity of £500bn. Hence, the ratio of total lending capacity to total subscribed capital is 71%⁹. In addition, the ESM Treaty stipulates the maintenance of a minimum 15% ratio between paid-in capital and outstanding amount of ESM issuances (Article 41). Subscribed capital contributions is shown in Figure 26, 62% of which is rated Aaa/Aa by Moody's. The proportion of paid-in capital to total capital is 11.4%

Article 9 of the ESM Treaty details how capital calls can be enforced to meet ESM obligations and maintain the integrity of the structure. The Board of Governors and the Board of Directors may call in authorized unpaid capital as detailed. In addition, Article 9(3) states that *"The Managing Director shall call authorised unpaid capital in a timely manner if needed to avoid the ESM being in default of any scheduled or other payment obligation due to ESM creditors. The Managing Director shall inform the Board of Directors and the Board of Governors of any such call. When a potential shortfall in ESM funds is detected, the Managing Director shall make such capital call(s) as soon as possible with a view to ensuring that the ESM shall have sufficient funds to meet payments due to creditors in full on their due date"*. In addition, Article 13(6) sets out a "warning system" to ensure timely repayments to the ESM are ensured. The overall callable capital mechanism is described as "exceptional" by Fitch ("European Stability Mechanism", FitchRatings, 10th October).

Together with the preferred creditor status¹⁰, the ESM has attracted a high credit quality status from the rating agencies. However, as with other core European supranationals (such as the EIB, EU and EFSF), a broad credit challenge at the moment is the underlying creditworthiness of euro area sovereigns. Regarding the ESM, Moody's has indicated the ESM's rating is particularly linked to the rating of sovereigns with large ESM contribution keys (such as Germany, France and the Netherlands - all on Negative Outlook). This helps explain why Moody's rates the ESM Aaa with a Negative Outlook.

Conclusion – enhanced features likely to ensure core SSA status

The environment for core SSA credits remains constructive in our view. Spreads have rallied given the wider uncertainty in Europe and characteristics of relatively high credit quality remain beneficial in world of dwindling investment opportunities in the AAA space. Going forward, all eyes are on Spain and if/when the sovereign formally requests aid from the EFSF/ESM (*Euro Economics Weekly - ESM And ECB Liquidity Decisions Ahead*). Overall, depending on how any forthcoming financial assistance is organized, we would expect the ECB do much of the heavy lifting should bond purchases form part of any agreement (*Global Economics View - Three bits of good and one piece of bad news about Europe*).

The certainty in establishing the euro area's permanent stability mechanism is clearly a welcome step in the development of the wider crisis management framework. We believe that the ESM's features of paid in capital, preferred creditor status and the broad commitments from its shareholders will enable it become a core market issuer within the European supranational universe.

⁹ This "low leverage" is a key input into Moody's analysis and its Aaa rating of the structure. Moody's Investor Service "European Stability Mechanism (ESM)" 8th October 2012.

¹⁰ Documented in the ESM Treaty. Note also that the ESM is junior to the IMF.

Revealing demand trends for European bonds

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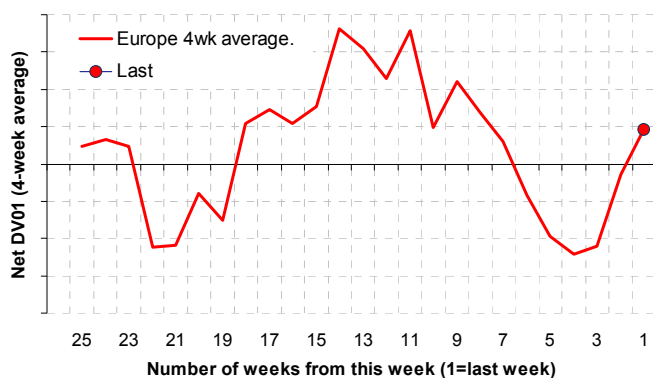
We look at medium-term demand trends in Europe, using 4-week averages, to cast light on the recent peripheral moves and the 25bp rally in Bunds over the last month. We also examine flows on the curve over the last week, and show how different appetite has been for the core and periphery ahead of S&P's downgrade of Spain.

Medium term demand trends...

Stepping back and taking a look at 4-week averages in net DV01 allows us to see distinct trends in demand

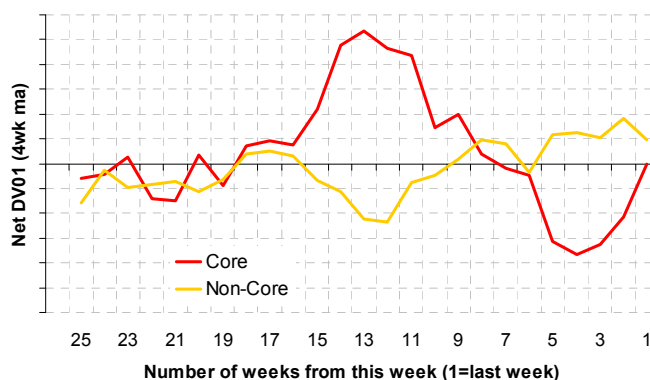
Appetite for Europe has bounced emphatically from its lows over a month ago (Figure 27), reflecting the market's belief in the commitment from the ECB to do whatever it takes. An encouraging aspect of this surge in demand is that it is driven not only by the core (the red line in Figure 28) but also by a steady (ongoing) increase in demand for peripherals (yellow line), not just a reduction in selling.

Figure 27. Clear bounce in demand for European bonds (4-week average, to week ending 05 October)



Source: Citi Research

Figure 28. Demand bounce driven by buying of the core, but also by steadily increasing appetite for peripherals (4wk average to 05October)

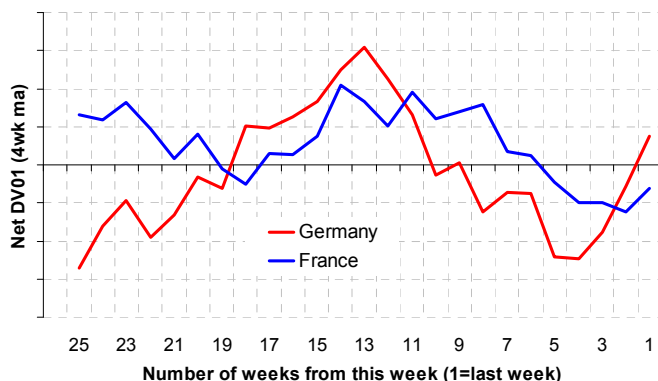


Source: Citi Research

... show demand for Germany appears to have been short-covering

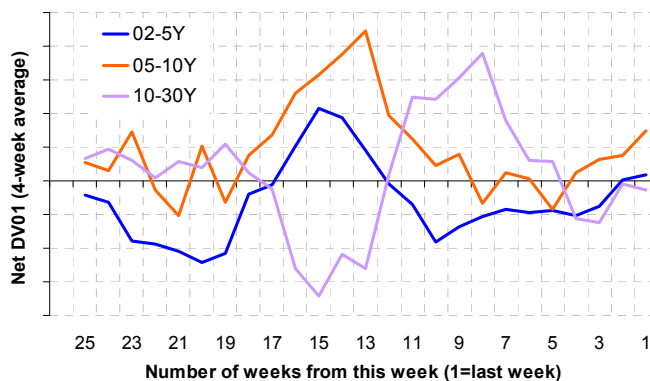
Delving deeper and decomposing the demand for the core confirms another aspect of the surge in demand, viz, that it has been predominantly risk-on driven short covering of Germany. Figure 29 also clearly shows the decline in appetite for France into the budget, but also mirroring Germany.

Figure 29. The demand bounce has largely been short covering of Germany (4-week average, to week ending 05 October)



Source: Citi Research

Figure 30. The rise and fall in 2-5 and 5-10yr demand foreshadowed the same dynamic in the 10-30yr bucket by 4-6 weeks (4wk avg to 05Oct)



Source: Citi Research

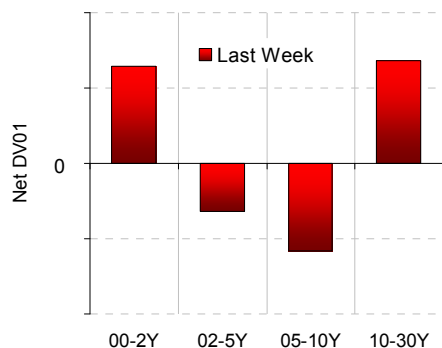
Figure 30, above right, reveals various differences between demand for different curve sectors in Europe.

- Demand for the 5-10yr sector has rarely dipped below zero, in contrast to the swings seen in demand for the 2-5yr and 10-30yr sectors
- Although demand for 2-5yrs mirrored the demand for 5-10yrs in its rise and fall 3-4 months ago, appetite for 5-10yrs had more momentum, and is now increasing again faster than other maturities.
- There was exactly the same dynamic in demand for the 10-30yr bucket as we saw in shorter maturities, but with a 4-6 week lag. Perhaps coincidental, but the similarity in its shape and duration is striking.

Core and peripheral curve flows over the last 5 business days

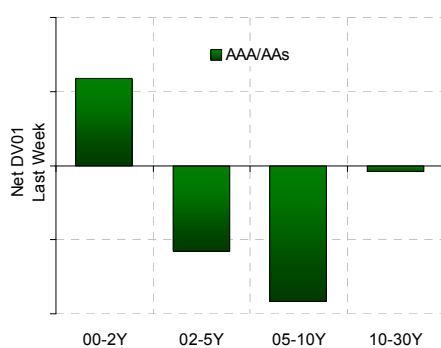
Over the last week we have seen buying of both ends of the curve in Europe and some selling of the belly (Figure 27). Decomposing this into the core and non-core reveals a clear difference in appetite on the curve for the two blocs. We saw selling of the 2-10yr sector of the core (Figure 32) and clear risk-appetite for peripheral duration (Figure 33).

Figure 31. Demand for both ends of the curve in Europe over the last week



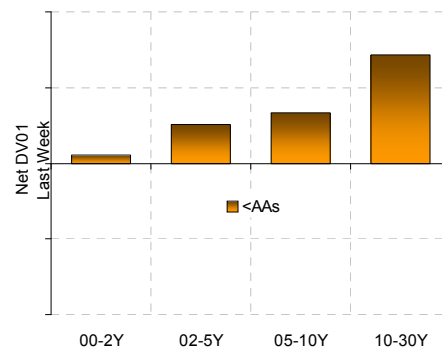
Source: Citi Research

Figure 32. Selling of the core in the 2-10yr sector over the last week.



Source: Citi Research

Figure 33. Buying of peripheral duration over the last week.



Source: Citi Research

Spain in the spotlight

We will watch the demand data¹¹ very closely next week to see just how much, and in what ways, S&P's downgrade of Spain affects investor behaviour. If demand for Spain proves resilient despite the eventual prospect of it possibly losing its investment grade rating, that will be a very significant signal. In the very short term, it will be interesting to see if negativity on Spain translates into steepening pressure given the presence of the OMT at the front end. We discuss the significance of S&P's recent downgrade of Spain elsewhere in this publication.

¹¹ All the above is based on customer flows executed on Citi's electronic platform. It does not include done-away trades or unfulfilled enquiries.

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Increasing cash flow support for Europe vs the US

Our *Weekly Supply Monitor* last week showed four weeks of supportive cash flows for Europe, and the opposite in the US, with four weeks of supply outweighing coupons and redemptions (and buybacks). The relevant tables are below.

Figure 34. Coupons and redemptions outweigh supply in Europe in each of the next four weeks

Settling in Week Commencing	A Gross Supply	B Coupons	A - B Net Supply	C Redemptions	A - B - C NCR
08 Oct	13.3	2.0	11.2	16.0	-4.8
15 Oct	10.0	4.4	5.6	18.4	-12.8
22 Oct	17.8	16.7	1.0	20.1	-19.1
29 Oct	17.3	8.6	8.6	28.4	-19.8
Total	58.3	31.8	26.5	82.9	-56.5
Average	14.6	7.9	6.6	20.7	-14.1
YTD Average	16.4	4.1	12.3	10.8	1.5

Source: DMOs, Citi estimates, Bloomberg. All figures are in billions of Euros.

The cash flow support for Europe relative to the US is increasing

What isn't immediately apparent from the tables above (EUR) and below (USD) is the increase in relative cash flow support for Europe over coming weeks.

Figure 35. Supply is greater than coupons and redemptions in the US for the next four weeks

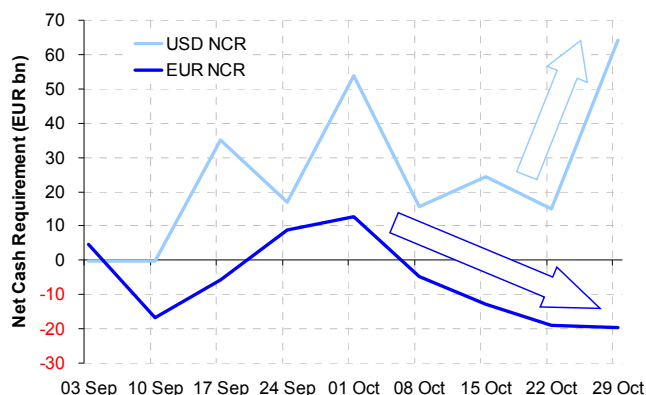
Settling in Week Commencing	A Gross Supply	B Coupons	A - B Net Supply	C Redemptions	D Buybacks	A - B - C - D NCR
08 Oct					-12.0	12.0
15 Oct	66.0	2.4	63.6	39.3	5.6	18.7
22 Oct					-11.5	11.5
29 Oct	106.0	4.8	101.2	51.2	0.5	49.4
Total	172.0	7.2	164.8	90.5	-17.4	91.6
Average	43.0	1.8	41.2	22.6	-4.3	22.9
YTD Average	42.9	3.1	39.8	25.3	0.4	14.0

Source: US Treasury, Citi estimates, Bloomberg. All figures are in billions of USD.

The trend of cash flow support in favour of Europe has corresponded with the widening of the spread since the beginning of September, and this support will increase in October

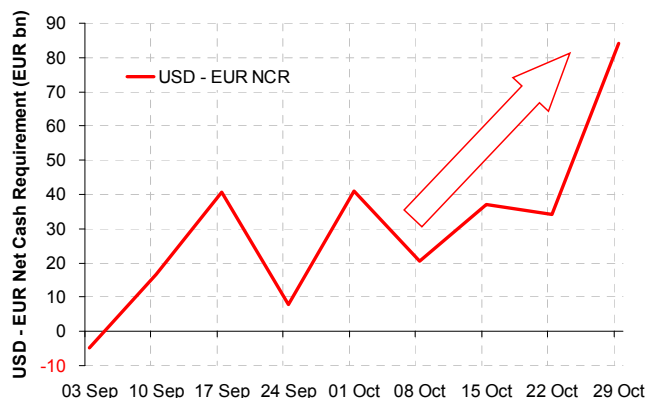
Figure 36 shows the NCR for Europe becoming steadily more supportive of Europe this month, while supply should weigh heavily on the US towards the end of the month. Figure 37 puts the EUR and USD NCRs together, showing the trend of cash flow support in favour of Europe, which has corresponded with the widening of the spread since the beginning of September

Figure 36. Cash flows supportive of Europe and negative for the US



Source: Citi Research

Figure 37. Relative cash flows supportive of Europe vs the US



Source: Citi Research

Relative cash flows should put further widening pressure on the US/Europe spread.

Supply Analysis and Forecasts

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Analysis of upcoming supply

Our regular detailed supply analysis is now published separately under the title “*Weekly Supply Monitor*”. Please click [here](#) for the most recent issue.

This publication includes 3 main areas:

Analysis of supply in the coming week and month

- Weekly DV01 of supply in EUR, GBP, and USD – historic and projected
- Maturity split of expected issuance next week in EUR, GBP, and USD
- Gross supply (and DV01) next week and month, by maturity and country
- 4-week issuance calendar incl. buybacks (DV01 and futures equivalents)

Profile of cash flows

- Coupons by maturity for each of the next 4 weeks in EUR, GBP, and USD
- Total coupons for each of the next 4 weeks, by maturity sector and country
- Coupon payment dates and amounts by country for next 3 months
- Monthly coupon totals for next 3 months

Coupons...

- Redemptions for each of the next 4 weeks, by maturity sector and country
- Redemption dates and amounts by country for next 3 months
- Monthly redemption totals for next 3 months

Redemptions...

- Net cash requirement for each of the next 4 weeks for EUR, GBP and USD
- 2012 monthly net cash requirements by maturity for GBP and USD

Net cash requirements...

Detailed supply forecasts

- 2012 and 2013 forecasts by currency and for each EMU-11 country
- Monthly EMU-11 net and gross supply by country and maturity to end-2012
- YTD issuance progress: percentage and vs 3yr average at this stage
- UK gilt remit progress by maturity + syndications

Supply forecasts

[Click here for link...](#)

Please click [here](#) for the document.

Provisional auction calendar for the next four weeks

Figure 38. Provisional Auction Calendar for the Next Four Weeks, Gross Issuance (Billions), DV01 (USD Millions)

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ2 (UST) G Z2 (Gilt) RXZ2 (Bund)
15 Oct (Mon)	US	4.25 - 5.25	Outright Treasury Coupon Purchases: 31/10/2018 - 15/8/2020		-48k
15 Oct (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
16 Oct (Tue)	US	4.5 - 5.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2022		-52k
16 Oct (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
17 Oct (Wed)	Germany	5.0	Schatz 0% Sep14 reopening (issue and size confirmed)		9k
17 Oct (Wed)	US	7 - 8	Outright Treasury Coupon Sales: 15/3/2015 - 31/5/2015		26k
17 Oct (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
18 Oct (Thu)	Spain	3.5	Bono 4% Jul15, 4.25% Oct16, Obligaciones 5.85% Jan22 (issue confirmed, estimated size)		14k
18 Oct (Thu)	France	9.3	BTAN/Index-linked OAT (estimated size)		37k
18 Oct (Thu)	UK	3.8	4½% Treasury Gilt 2019 (issue and size confirmed)		28k
18 Oct (Thu)	US	7.0	30-year TIPS (re-opening)		83k
18 Oct (Thu)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2042		-52k
19 Oct (Fri)	US	0.75 - 1.1	Outright TIPS Sales: 15/4/2014 - 31/1/2016		2k

Weekly \$DV01 of Issuance

4.4

Total Number of Futures Contracts

-41k

-6k

60k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ2 (UST) G Z2 (Gilt) RXZ2 (Bund)
22 Oct (Mon)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2042		-52k
22 Oct (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
23 Oct (Tue)	UK	4.2	Syndication of new conventional gilt 2044 (week commencing 22 October, estimated size)		99k
23 Oct (Tue)	US	35.0	2-Year		85k
23 Oct (Tue)	US	7 - 8	Outright Treasury Coupon Sales: 15/6/2015 - 31/8/2015		26k
23 Oct (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
24 Oct (Wed)	Germany	4.0	Bund 1.5% Sep22 reopening (issue and size confirmed)		33k
24 Oct (Wed)	US	35.0	5-Year		204k
24 Oct (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
25 Oct (Thu)	US	29.0	7-Year		232k
25 Oct (Thu)	US	4.5 - 5.5	Outright Treasury Coupon Purchases: 15/11/2020 - 15/8/2022		-52k
26 Oct (Fri)	Italy	3.5	CTZ (estimated size)		6k
26 Oct (Fri)	Italy	0.8	BTPEi (estimated size)		6k
26 Oct (Fri)	US	1.5 - 2	Outright Treasury Coupon Purchases: 15/11/2022 - 15/2/2031		-33k

Weekly \$DV01 of Issuance

50.0

Total Number of Futures Contracts

409k

65k

46k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ2 (UST) G Z2 (Gilt) RXZ2 (Bund)
29 Oct (Mon)	Belgium	3.0	OLO 5yr, 10yr and 15yr (estimated tenors and size)		29k
29 Oct (Mon)	US	7 - 8	Outright Treasury Coupon Sales : 15/11/2015 - 31/12/2015		26k
29 Oct (Mon)	UK	1.0	Gilt APF Buyback: 3-7yrs		-4k
30 Oct (Tue)	Italy	7.0	BTP 5yr and 10yr (estimated tenors and size)		44k
30 Oct (Tue)	US	1.75 - 2.25	Outright Treasury Coupon Purchases: 15/2/2036 - 15/8/2042		-52k
30 Oct (Tue)	UK	0.8	Gilt APF Buyback: 15yrs+		-19k
31 Oct (Wed)	Germany	2.0	Bund 2.5% Jul44 reopening (issue and size confirmed)		44k
31 Oct (Wed)	France	6.5	OAT 5yr, 10yr and 15yr (estimated tenors and size)		55k
31 Oct (Wed)	US	4.25 - 5.25	Outright Treasury Coupon Purchases : 15/11/2018 - 15/8/2020		-48k
31 Oct (Wed)	UK	1.0	Gilt APF Buyback: 7-15yrs		-10k
01 Nov (Thu)	UK	0.8	Mini Tender (week commencing 29 October, estimated size)		8k
01 Nov (Thu)	UK	1.1	0¼% Index-linked Treasury Gilt 2047 (issue confirmed, estimated size)		37k

Weekly \$DV01 of Issuance

19.9

Total Number of Futures Contracts

-74k

11k

172k

Date	Country	Estimated Size (Local Ccy)	Issue Details (Estimated)	DV01 \$million/bp	Approx. Number 10yr Futures TYZ2 (UST) G Z2 (Gilt) RXZ2 (Bund)
06 Nov (Tue)	Austria	1.8	RAGB 5yr and 10yr (estimated size and tenor)		12k
06 Nov (Tue)	UK	3.2	1¼% Treasury Gilt 2022 (issue confirmed, estimated size)		31k
06 Nov (Tue)	US	32.0	3-Year		78k
07 Nov (Wed)	Germany	4.0	Bobl-164 0.5% Oct17 reopening (issue and size confirmed)		17k
07 Nov (Wed)	US	24.0	10-Year		259k
08 Nov (Thu)	Spain	3.4	Bono 2yr, 5yr and 10yr (estimated tenor and size)		13k
08 Nov (Thu)	US	16.0	30-Year		382k

Weekly \$DV01 of Issuance

69.9

Total Number of Futures Contracts

719k

31k

42k

The next release of the approximate purchase and sale amounts and tentative Outright operation schedule will be at 1400 (NY Time) on 31 October 2012

Source: DMOs, Citi estimates

EUR: Coupons & Redemptions (next 3mths)

Figure 39. EMU-11 Redemptions over the next three months (€bn)

Redemptions = €166bn											
Redemptions	DEU 57	FRA 26	NLD 0	ITA 62	ESP 15	BEL 6	AUT 0	FIN 0	PRT 0	GRC 0	IRL 0
(Fri) 12-Oct-12	16.0										
(Mon) 15-Oct-12				18.4							
(Thu) 25-Oct-12		20.1									
(Wed) 31-Oct-12					15.0						
(Thu) 01-Nov-12				13.5							
(Fri) 14-Dec-12	17.0										
(Sat) 15-Dec-12				18.7							
(Mon) 24-Dec-12						5.9					
(Wed) 26-Dec-12		5.5									
(Mon) 31-Dec-12				11.8							
(Fri) 04-Jan-13	24.0										

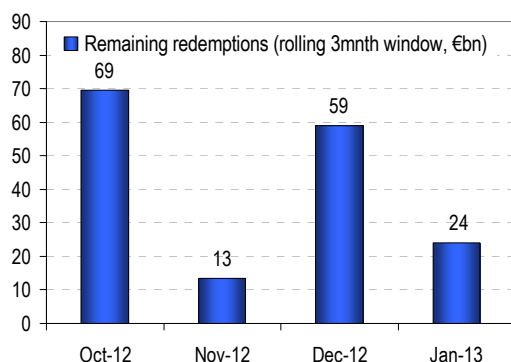
Source: DMOs, Bloomberg, Citi estimates

Figure 40. EMU-11 Coupon Payments over the next three months (€bn)

Coupons = €35bn											
Coupons	DEU 2	FRA 16	NLD 0	ITA 9	ESP 4	BEL 0	AUT 1	FIN 0	PRT 2	GRC 0	IRL 1
(Thu) 11-Oct-12	0.6										
(Fri) 12-Oct-12	0.7										
(Sat) 13-Oct-12	0.0										
(Sun) 14-Oct-12	0.2										
(Mon) 15-Oct-12				1.6					1.0		
(Tue) 16-Oct-12									0.3		
(Thu) 18-Oct-12											1.5
(Sat) 20-Oct-12							0.9				
(Thu) 25-Oct-12		15.6							0.4		
(Wed) 31-Oct-12					4.3						
(Thu) 01-Nov-12				4.4							
(Thu) 15-Nov-12				0.4							
(Thu) 22-Nov-12							0.2				
(Sat) 01-Dec-12				1.0							
(Thu) 13-Dec-12	0.0										
(Fri) 14-Dec-12	0.2										
(Sat) 15-Dec-12				1.0							
(Sat) 22-Dec-12				0.1							
(Mon) 24-Dec-12						0.5					
(Wed) 26-Dec-12		0.5									

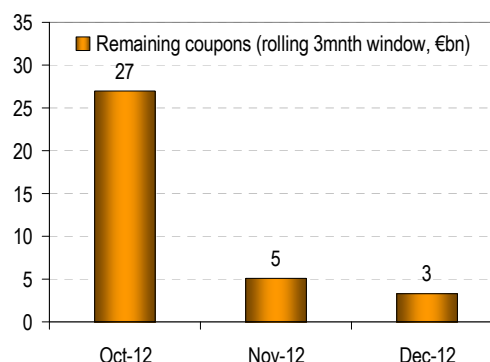
Source: DMOs, Bloomberg, Citi estimates

Figure 41. EMU-11 remaining redemptions over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi estimates

Figure 42. EMU-11 remaining coupons over the next 3months (€bn)



Source: DMOs, Bloomberg, Citi estimates

Current ARTS Trading Signals

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Short and long term signals remain diverged ...

... in the long term the models continue to be supportive of duration but in the short term continue to be neutral ...

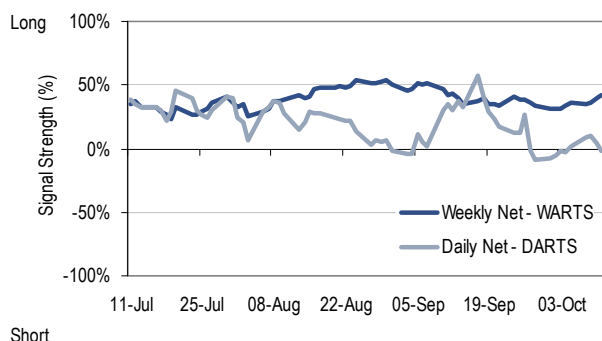
... this is being driven by differing outlooks of risk and fundamental signals.

Continue to maintain core long-term duration position but remain neutral in the short term until risk/reward improves.

This week the daily and weekly algorithmic rates trading signals¹² continue to remain dislocated, with the long-term signals (WARTS) maintaining a long duration exposure of 42% and the short-term models (DARTS) remaining neutral (see Figure 43). This dislocation of signals is caused by differing outlooks of risk aversion and fundamentals. In the WARTS models, both risk aversion and fundamentals are supportive of long duration positions. In contrast, DARTS risk aversion remains weak and fundamentals relatively stronger, driving a net short duration position.

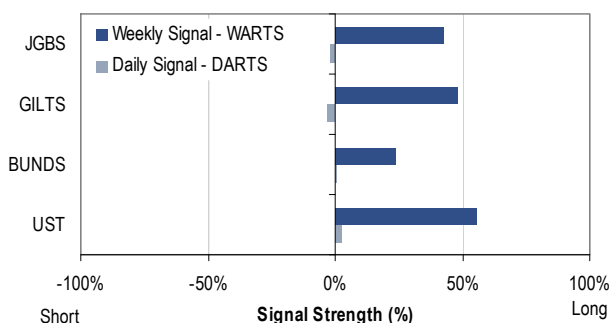
At an asset level there is broad agreement of the long duration positions in WARTS and neutral position in DARTS (see Figure 44). The signals suggest investors should wait for yield to increase before re-initiating new longs positions.

Figure 43. Evolution history of the daily / weekly 10y net signal



Source: Citi Research

Figure 44. Breakdown of current daily and weekly net signals

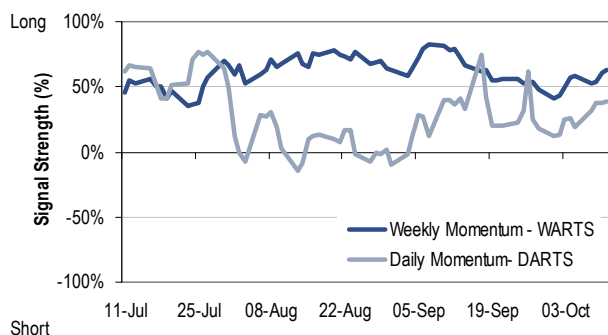


Source: Citi Research

Momentum signal has mildly strengthened in both the long- and short-term models ...

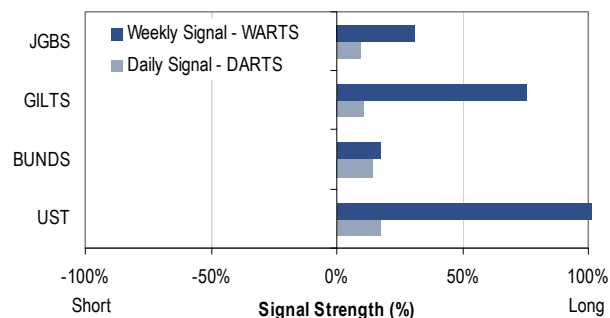
The momentum signal continues to maintain long duration positions in both DARTS and WARTS models (see Figure 45). This is a result of the drift lower in yield in both the short and long term horizon. This has coincided with a lower level of mean reversion driving an increase in signals strength. At an asset level there is broad agreement that momentum is mildly supportive of duration (see Figure 46).

Figure 45. Evolution history of the daily / weekly 10y momentum signal



Source: Citi Research, Bloomberg

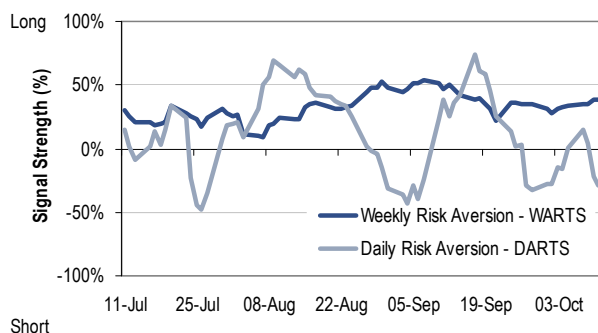
Figure 46. Breakdown of current daily and weekly momentum signals



Source: Citi Research, Bloomberg

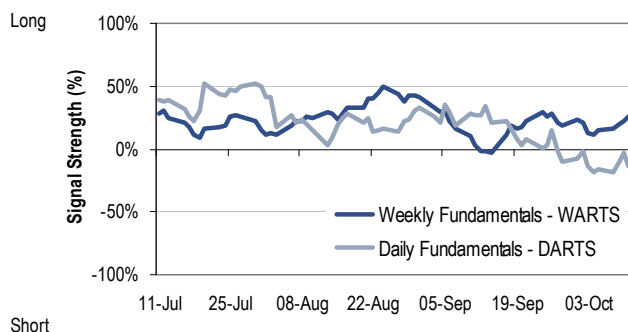
¹² The current signals are calibrated as of market close 10th October 2012.

Figure 47. Evolution history of the daily / weekly 10y risk aversion signal



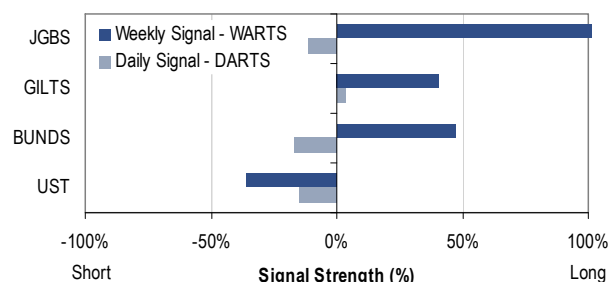
Source: Citi Research

Figure 49. Evolution history of the daily / weekly 10y fundamental signal



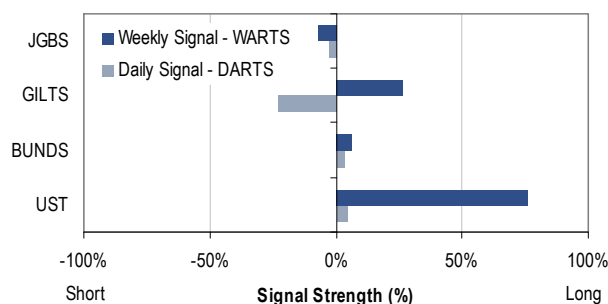
Source: Citi Research, Bloomberg

Figure 48. Breakdown of current daily and weekly risk aversion signals



Source: Citi Research, Bloomberg

Figure 50. Breakdown of current daily and weekly fundamental signals



Source: Citi Research, Bloomberg

... Meanwhile risk aversion remains diverse across models due to a difference in short- and long-term asset correlations.

... finally fundamentals continue to be fair value given the recent drop in yields.

The signals suggest that investors should wait for more attractive yields before adding to duration in the short term.

Meanwhile, the risk aversion signal remains elevated in WARTS but has reversed in DARTS (see Figure 47). The contrasting dynamics are caused by the different size of regression windows used. In DARTS, the models are much more sensitive to short-term risk asset correlations. Recently there has been a switch from trend to reversion. Hence the recent sell-off in risk assets results in an increased probability of a reversal (and hence rates sell-off). However, WARTS finds that longer-term risk indicators remain stressed. Hence WARTS finds there is an increased probability that risk asset will revert lower (and hence rates rally). At the asset level signals are diversified, with broad agreement of 'risk on' in UST but strong risk-off dynamics in JGBs (see Figure 48).

Finally, fundamentals remain weak in both DARTS and WARTS (see Figure 49). This dynamic is a result of yields becoming more fairly priced as yields move lower. However, at the asset level signals are highly diversified with weak fundamental forecasts in UST driving a long duration in WARTS (see Figure 50).

In summary, in the short term the signals remain finely balanced. Momentum remains supportive of duration but 'risk on' signals and stronger fundamentals are suggesting a move higher in yields. In the longer term the model continues to find duration risk/reward more attractive due to raised risk aversion outlooks in the longer term. Hence the models continue to hold around 25% invested (in the longer term) and are waiting for yields to move higher before increasing exposure. The most attractive risk/reward profile is UST and Gilts, where strong momentum dynamics and weaker fundamentals are supportive of duration in the longer term.

Inflation Forecasts, Carry & Weekly Changes

Figure 51. Citi Inflation Forecasts

Month	EUR HICPxT			France CPIxT			UK RPI			US CPURNSA		
	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY	Index	MoM	YoY
	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change	Forecast	Change	Change
Aug 12	115.10	0.4	2.6	125.06	0.7	2.0	243.00	0.4	2.9	230.38	0.6	1.7
Sep 12	115.80	0.6	2.4	124.74	-0.3	1.8	244.20	0.5	2.6	231.10	0.3	1.9
Oct 12	116.18	0.3	2.4	124.53	-0.2	1.5	244.50	0.1	2.7	231.10	0.0	2.1
Nov 12	116.28	0.1	2.4	124.80	0.2	1.5	244.70	0.1	2.6	231.20	0.0	2.2
Dec 12	116.73	0.4	2.5	125.29	0.4	1.4	245.80	0.4	2.7	231.00	-0.1	2.4
Jan 13	115.71	-0.9	2.4	124.54	-0.6	1.2	244.30	-0.6	2.6	231.90	0.4	2.3

Shaded = Already released

Source: Citi Research, Bloomberg

Figure 52. US TIPS Inflation- Linked Carry (based on forecasts above) – One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Nov	1 Dec	1 Jan					1 Nov	1 Dec	1 Jan		
Repo (%)				0.14	0.14	0.14									
TIPS 1/14	-1.44	10	9	23	41	31	US-4.000-02/15/14	168	-7	0	22	40	29	16	9
TIPS 4/14	-1.37	-2	-2	19	34	26	US-1.875-04/30/14	163	5	11	18	33	24	9	-3
TIPS 7/14	-1.74	7	7	15	26	17	US-2.625-07/31/14	201	-5	0	15	25	15	12	6
TIPS 1/15	-1.54	8	7	12	21	15	US-2.250-01/31/15	184	-5	-1	12	20	13	18	6
TIPS 4/15	-1.51	9	9	11	19	13	US-2.500-04/30/15	183	-7	-3	10	18	11	15	8
TIPS 7/15	-1.68	1	0	10	16	11	US-4.250-08/15/15	202	2	5	9	15	9	23	-1
TIPS 1/16	-1.64	10	10	8	14	9	US-2.625-02/29/16	205	-6	-4	8	13	7	17	7
TIPS 4/16	-1.59	6	6	8	13	9	US-2.000-04/30/16	203	-2	0	7	12	7	16	2
TIPS 7/16	-1.68	3	3	7	12	8	US-4.875-08/15/16	217	1	3	7	11	6	22	-1
TIPS 1/17	-1.60	9	9	6	11	7	US-3.125-01/31/17	216	-5	-3	6	9	5	20	5
TIPS 4/17	-1.59	7	7	6	10	7	US-0.875-04/30/17	220	-2	0	5	8	4	14	1
TIPS 7/17	-1.63	5	5	6	10	6	US-4.750-08/15/17	228	0	2	5	8	4	23	-1
TIPS 1/18	-1.54	9	9	5	9	6	US-3.500-02/15/18	231	-4	-2	5	7	3	17	3
TIPS 7/18	-1.55	9	9	5	8	6	US-4.000-08/15/18	237	-4	-2	4	6	3	21	2
TIPS 1/19	-1.36	7	7	5	8	6	US-2.750-02/15/19	232	-2	-0	4	6	3	23	0
TIPS 7/19	-1.37	11	11	4	7	5	US-3.625-08/15/19	242	-5	-4	4	5	2	22	4
TIPS 1/20	-1.23	12	12	4	7	5	US-3.625-02/15/20	239	-7	-6	3	5	2	24	5
TIPS 7/20	-1.17	12	12	4	7	5	US-2.625-08/15/20	245	-7	-6	3	4	2	25	5
TIPS 1/21	-1.02	10	10	4	7	5	US-3.625-02/15/21	240	-5	-4	3	4	2	29	3
TIPS 7/21	-0.97	7	7	3	6	5	US-2.125-08/15/21	247	-3	-2	3	4	1	28	0
TIPS 1/22	-0.83	9	9	3	6	5	US-2.000-02/15/22	245	-4	-3	2	4	1	28	2
TIPS 7/22	-0.80	9	9	3	6	5	US-1.625-08/15/22	251	-4	-3	2	3	1	27	1
TIPS 1/25	-0.49	9	9	3	5	5	US-7.625-02/15/25	243	-5	-4	2	3	0	37	2
TIPS 1/26	-0.35	6	6	3	5	5	US-6.000-02/15/26	244	-2	-2	2	2	0	37	-1
TIPS 1/27	-0.29	9	9	3	5	5	US-6.625-02/15/27	246	-6	-5	2	2	0	37	3
TIPS 1/28	-0.20	9	9	2	5	4	US-6.125-11/15/27	245	-6	-5	1	2	0	40	3
TIPS 4/28	-0.18	3	3	3	5	5	US-5.500-08/15/28	249	-0	0	2	2	1	34	-2
TIPS 1/29	-0.14	7	7	2	5	4	US-5.250-02/15/29	250	-4	-4	1	2	0	36	1
TIPS 4/29	-0.13	7	7	3	5	5	US-5.250-02/15/29	248	-4	-3	2	2	0	36	1
TIPS 4/32	-0.02	7	7	2	4	4	US-5.375-02/15/31	245	-4	-3	1	2	0	41	1
TIPS 2/40	0.31	8	8	2	3	3	US-4.625-02/15/40	245	-6	-6	1	1	0	43	2
TIPS 2/41	0.33	6	6	2	3	3	US-4.750-02/15/41	245	-4	-4	1	1	0	43	-0
TIPS 2/42	0.39	7	7	1	3	3	US-3.125-02/15/42	248	-4	-4	1	1	0	40	0

Source: Citi Research

Figure 53. EUR Inflation- Linked Carry (based on forecasts above)- One week changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Dec	1 Jan	1 Feb					1 Dec	1 Jan	1 Feb		
Repo (%)				0.09	0.09	0.08									
BTPei14	0.59	-8	-8	50	75	87	BTP 8/14	168	3	5	33	45	42	18	-0
OATei15	-1.44	-1	-1	23	32	31	FFRG 4/15	167	-3	-1	22	30	29	31	12
BUNDei16	-1.18	2	2	19	27	27	BUND 1/16	133	-1	1	19	26	26	31	3
BTANi16	-1.23	3	3	-2	-10	-7	FFRG 4/16	170	-9	-6	-4	-12	-11	53	16
BTPei16	2.09	-5	-5	30	45	53	BTP 8/16	122	1	3	18	24	24	64	1
OATi17	-1.02	1	1	-1	-7	-4	FFRG 4/17	180	-7	-5	-3	-11	-9	48	12
BTPei17	2.39	-9	-9	25	37	44	BTP 8/17	142	5	6	13	18	16	48	-4
BOBLEi18	-0.86	4	4	13	18	18	BUND 1/18	144	-1	-0	12	16	15	33	3
OATei18	-0.60	-4	-4	13	18	19	FFRG 4/18	167	-4	-3	10	13	12	30	9
OATi19	-0.51	1	1	0	-3	-1	FFRG 4/19	188	-11	-9	-3	-8	-7	48	15
BTPei19	2.86	-5	-5	19	29	34	BTP 9/19	138	-2	-1	10	13	12	57	2
BUNDei20	-0.64	7	7	10	14	15	BUND 1/20	164	-3	-2	8	11	10	23	2
OATei20	-0.18	-2	-2	11	15	16	FFRG 4/20	181	-8	-7	8	10	9	22	10
BTPei21	3.22	-12	-12	15	23	28	BTP 9/20	125	3	3	7	9	8	79	18
OATei22	0.13	-1	-1	9	13	14	FFRG 4/21	172	-9	-8	6	7	6	40	9
BUNDei23	-0.37	10	10	7	10	11	BUND 1/22	176	-5	-4	5	7	6	29	3
OATi23	0.14	2	2	1	-1	2	FFRG 10/23	214	-13	-12	-2	-6	-6	38	15
BTPei23	3.49	-11	-11	14	21	25	BTP 8/23	146	-1	-0	6	8	7	69	-1
BTPei26	3.73	-12	-12	12	18	22	BTP 3/26	155	-2	-1	5	6	5	69	0
OATei27	0.45	-6	-6	7	9	10	FRTR 4/26	210	-3	-3	4	5	3	18	3
OATi29	0.42	-6	-6	1	0	2	FFRG 4/29	232	-5	-4	-2	-5	-5	20	6
OATei32	0.60	-5	-5	6	8	9	FFRG 10/32	227	-5	-5	3	4	3	7	5
BTPei35	3.71	-11	-11	8	12	14	BTP 8/34	193	-3	-3	2	2	1	42	2
OATei40	0.66	-5	-5	4	6	6	FFRG 10/38	238	-6	-6	2	2	1	5	5
BTPei41	3.75	-6	-6	7	10	13	BTP 9/40	193	-6	-6	2	2	1	51	5

Source: Citi Research

Figure 54. UK Gilts Inflation- Linked Carry (based on forecasts above)- One Week Changes

Bond	RY (%)	Chg (bp)	Carry-adj chg	Carry: RY (bp)			Ref	BE (bp)	Chg (bp)	Carry-adj chg	Carry: BE (bp)			ZC Swap - BE Spread (bp)	Chg (bp)
				1 Nov	1 Dec	1 Jan					1 Nov	1 Dec	1 Jan		
Repo (%)				0.42	0.41	0.40									
UKTi Jul16	-1.89	-2	-2	1	2	4	UKT 9/16	235	8	8	1	2	4	37	-2
UKTi Nov17	-1.57	-2	-2	3	9	9	UKT 3/18	237	10	10	2	8	7	30	-3
UKTi Apr20	-1.13	-6	-7	1	3	5	UKT 3/20	235	15	15	0	1	2	33	-10
UKTi Nov22	-0.78	-5	-6	2	6	6	UKT 3/22	239	13	14	1	4	3	43	-5
UKTi Mar24	-0.46	-	-	2	5	6	UKT 3/25	245	-	-	1	3	2	38	-
UKTi Jul24	-0.51	-6	-6	1	3	4	UKT 3/25	249	14	14	0	0	1	40	-7
UKTi Nov27	-0.22	-4	-5	1	5	5	UKT 12/27	251	12	13	1	2	2	46	-3
UKTi Mar29	-0.05	-4	-4	1	4	5	UKT 12/30	259	10	10	0	2	1	38	-1
UKTi Jul30	-0.11	-1	-2	1	2	4	UKT 6/32	278	7	7	0	0	0	26	2
UKTi Nov32	0.03	1	0	1	4	4	UKT 6/32	265	5	5	0	2	1	44	3
UKTi Mar34	0.11	-1	-1	1	3	4	UKT 9/34	271	7	7	0	1	0	37	2
UKTi Jan35	0.10	1	1	1	2	3	UKT 3/36	282	5	4	0	0	0	30	4
UKTi Nov37	0.17	2	1	1	3	4	UKT 12/38	283	5	5	0	1	0	34	4
UKTi Mar40	0.22	2	2	1	3	3	UKT 9/39	284	4	4	0	1	0	36	4
UKTi Nov42	0.22	3	3	1	3	3	UKT 12/42	291	4	4	0	0	0	37	5
UKTi Mar44	0.27	2	2	1	2	3	UKT 12/42	286	5	5	0	0	-1	41	4
UKTi Nov47	0.26	3	2	1	2	3	UKT 12/46	294	4	4	0	0	-1	37	5
UKTi Mar50	0.28	3	2	1	2	2	UKT 12/49	295	4	4	0	0	-1	35	5
UKTi Mar52	0.31	2	2	1	2	2	UKT 7/52	296	4	4	0	0	-1	35	5
UKTi Nov55	0.27	3	2	1	2	2	UKT 12/55	296	3	3	0	0	-1	38	6
UKTi Mar62	0.26	2	2	1	2	2	UKT 1/60	296	4	4	0	0	-1	39	6

Source: Citi Research

Summary of Recent Publications

Date	Publication	Topic	Page	Region
11-Oct-12	NOTE	Weekly Supply Monitor: Euro, US and UK supply outlook	-	Global
11-Oct-12	NOTE	Spain and Standard & Poor's: The real significance of S&P's downgrade of Spain	-	EUR
09-Oct-12	NOTE	Global Inflation Strategy: Assessing value in global inflation swaps	-	Global
08-Oct-12	NOTE	European Flow Analysis: Revealing Demand Trends For European Bonds	-	EUR
05-Oct-12	NOTE	European Rates Strategy: Spain Short-end RV and the OMT	-	EUR
04-Oct-12	European Weekly	Euro Money Markets: All Fine? Not really...	8	EUR
		The trade-off between carry and duration	9	Global
		UK Inflation Strategy: Take profits on short positions in 10yr break-even	13	UK
		SSA Strategy: Yields remain low and relatively range bound	15	EUR
04-Oct-12	NOTE	Weekly Supply Monitor: Euro, US and UK supply outlook	-	EUR
03-Oct-12	NOTE	Euro Rates Strategy: Unchanged ECB, but Rich in Carry	-	EUR
27-Sep-12	NOTE	Euro SSA Strategy: An Introduction to Core European SSA Issuers	-	EUR
27-Sep-12	IIRS	Focus on France: Budget expectations – unrealistic GDP baseline	8	EUR
		The Demand for French Government Bonds	13	EUR
		EMU-11: October Supply Outlook	24	EUR
26-Sep-12	NOTE	Euro Rate Strategy: EMU-11 October Supply Outlook	-	EUR
25-Sep-12	NOTE	Month-End Index-Linked Index Projections	-	Global
20-Sep-12	IIRS	Euro Money Markets: Eurozone's Lost Decade	10	EUR
		UK Inflation Strategy: CPAC presents downside risks to break-evens	12	GBP
		Swaps & Swaptions	14	EUR
		Bearish 5y? Check the EUR Payer Skew	15	EUR
		SSA Issuer Focus: EFSF/ESM	16	EUR
		End-September WGBI/EGBI Projections	20	Global
20-Sep-12	NOTE	Global Month-End Index Projections: Month-End Support for France and Italy	-	Global
13-Sep-12	IIRS	Euro Money Markets	8	EUR
		Will Draghi's Words Be Enough?	10	EUR
		Assessing the Impact of a Theoretical OMT on the Italian Market	13	EUR
		Moody's Review of Spain's Rating	19	EUR

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Appendix A-1

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